

Hudson's Bay Oil and Gas Company Limited

AR14

**ANNUAL
REPORT
1969**



Hudson's Bay Oil and Gas Company Limited



1969 Annual Report

CONTENTS

Financial and Operating Highlights	1
President's Report to Shareholders	2
General Review	
Exploration	6
Drilling	9
Production	10
Map	16-17
Supply and Transportation	18
Employees	20
Financial Review	22
Financial Statements	24
Directors and Management	30
Ten Year Operating Review	31
Ten Year Financial Review	32

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at the Head Office of the Company on Tuesday, April 21, 1970 at 11:30 a.m. Notice of the meeting and proxy forms are being mailed with this report.



FINANCIAL AND OPERATING HIGHLIGHTS

	<u>1969</u>	<u>1968</u>	<u>Increase (Decrease) Per Cent</u>
FINANCIAL			
Gross Operating Revenues	\$76,495,000	\$66,884,000	14.4
Funds Generated from Operations			
Total	\$44,794,000	\$42,751,000	4.8
Per Common Share	\$ 2.37	\$ 2.25	5.3
Net Earnings before Income Taxes	\$29,390,000	\$26,810,000	9.6
Net Earnings			
Total	\$27,030,000	\$26,790,000	0.9
Per Common Share	\$ 1.40	\$ 1.38	1.4
Dividends Declared			
Total	\$10,647,000	\$10,647,000	—
Per Preferred Share	\$ 2.50	\$ 2.50	—
Per Common Share	\$.50	\$.50	—
Capital and Exploration Expenditures	\$49,117,000	\$60,695,000	(19.1)

OPERATING

Crude Oil and Natural Gas Liquids			
Production – Net (Barrels per day)	54,426	49,515	9.9
Natural Gas Sales – Net			
(Millions of cubic feet per day)	281.7	233.3	20.7
Sulphur Sales – Net (Long tons per day)	760	406	87.2
Pipe Line Throughput (Barrels per day)	70,135	66,578	5.3
Oil and Gas Rights (net acres at year end)	22,831,000	20,676,000	10.4
Proved and Probable Reserves – Net (at year end)			
Crude Oil and Natural Gas Liquids (Barrels)	386,795,000	376,137,000	2.8
Natural Gas (Millions of cubic feet)	3,181,000	3,134,000	1.5
Sulphur (Long tons)	9,760,000	9,490,000	2.8



PRESIDENT'S REPORT

In 1969 Hudson's Bay Oil and Gas again achieved substantial gains in operating volumes and revenues. However, its long record of substantial annual gains in net earnings was interrupted by the impact of income taxes which previously had been a negligible factor due to accumulated deductions for drilling and exploration expenditures carried forward from prior years.

Financial Results

Net earnings for 1969 were \$27,030,000, approximately 1% higher than in the prior year, and after deducting preferred dividends amounted to \$1.40 per common share as compared with \$1.38 per share in 1968. Earnings before providing for \$2,360,000 of income taxes were up 9.6%. Funds generated from operations, after providing for income taxes, increased by 4.8% to \$44,794,000 and were equivalent to \$2.37 per common share after deducting preferred dividends as compared with \$2.25 per share in 1968.

Gross operating revenues for the year totalled \$76,495,000, an increase of 14.4%. Most of this gain was attributable to sales of additional volumes of natural gas and natural gas liquids produced from new gas processing plants that were brought into operation late in 1968 and early in 1969. These new plants also contributed to a large increase in the Company's production and sales of sulphur, but sulphur revenues were only moderately higher than in 1968 because of a sharp decline in prices.

Capital and Exploration Expenditures

Capital and exploration expenditures for the year totalled \$49,117,000. These outlays, although considerably greater than in most prior years, represented a reduction of \$11,578,000 from the particularly high level of spending in 1968 when five major gas plant projects were under construction. In 1969 expenditures for gas plants and related facilities totalled \$8,663,000 with the principal item being the Company's share of the costs of constructing a second large plant in the Kaybob South gas field. This plant has been brought into operation since year end and will add

materially to the Company's production volumes and revenue generation in 1970. Expenditures on acreage acquisitions totalled \$14,171,000 for the year, more than double the \$5,766,000 spent in 1968. Most of the increase was for the purchase of a substantial interest in 3,717,000 acres of permits in the Arctic Islands. These permits form part of the lands on which Panarctic Oils Ltd. is currently carrying out geological, geophysical and exploratory drilling programs under farmout agreements. Early and important evaluation of the Company's Arctic Islands holdings will result from these programs.

Financing

Early in the year the Company sold U.S. \$25,000,000 of 7.85% Collateral Trust Bonds due 1994. This financing provided additional funds for prospective capital spending requirements and at year end the Company was in strong liquid position with \$33,234,000 of cash and short term investments.

Plans for 1970

Capital and exploration expenditures in 1970 are expected to be maintained at approximately the same level as in 1969. Outlays for acreage acquisitions and for development drilling and production facilities are projected at normal levels. Expenditures for exploratory drilling are expected to be higher than in 1969 as two expensive exploratory tests are scheduled to be drilled on the Company's holdings in the offshore areas between Nova Scotia and Prince Edward Island. Spending on gas plants and related facilities also will be somewhat higher than in 1969 with the major item being the Company's share of the cost of constructing a third plant at Kaybob South to serve the southern portion of the field. Completion of this plant, currently projected for mid 1971, will result in a substantial addition to the Company's natural gas, gas liquids and sulphur production.

Industry Outlook

The outlook for the Canadian petroleum industry appears generally favourable. Demand for Canadian crude oil and natural gas liquids grew by almost

10% in 1969. A substantial increase in exports to the United States was a major factor in this market growth. The strong uptrend in export demand has continued in 1970 to date but any realistic forecast of the average level of export demand for the year must await clarification of the position of the United States Government with respect to its oil import program. Domestic demand for Canadian crude oil and equivalents is expected to increase by approximately 4% in 1970 as compared with a 3.8% gain in 1969. Steady growth in demand for natural gas in both domestic and export markets resulted in a 15% increase in sales in 1969 and another increase of similar magnitude in 1970 is indicated. The expansion of gas processing in 1970 to meet the increased demand will result in another large addition to Canadian sulphur production. This undoubtedly will further compound the existing over-supply situation and probably will preclude any significant strengthening of the currently depressed price for sulphur. The industry's exploratory drilling activities in 1969 resulted in a number of significant gas discoveries in the deep Alberta basin along the eastern edge of the foothills belt but no new oil discoveries of major importance have been reported. However, exploratory drilling is expected to be maintained at a high level in 1970 as the industry tests the extensive new land holdings acquired in recent years and increases its drilling activity in the new frontier areas of Canada's far north and off its East Coast.

Proposed Tax Changes

In November the Government of Canada issued a White Paper setting out proposals for a wide-ranging reform of income taxes. Some of the changes proposed in general taxing provisions could have very damaging consequences for the petroleum industry and the Canadian economy as a whole. The revolutionary proposals for integration of corporate and personal income taxes, and for the taxing of unrealized capital gains at periodic intervals, could seriously disrupt the financing of the productive new capital investments that are

essential to continued strength and growth of the economy. Healthy and effective capital markets are particularly important to the petroleum industry because it is so capital intensive. The White Paper proposals that deal specifically with the petroleum industry would introduce additional restrictions on depletion allowances. However, over the foreseeable future, the proposed restrictions probably would not have any significantly limiting effect on the amount of depletion that could be claimed by exploration-oriented companies such as Hudson's Bay Oil and Gas. The Government has requested submissions on these proposals and the Company plans to present a brief stating its views. Hopefully the opinions and recommendations submitted by individual and corporate taxpayers will result in elimination or modification of some of the more extreme White Paper proposals when the Government introduces a revised Income Tax Act, currently projected for 1971.

Directors and Employees

In December, 1969, the Directors accepted with sincere regret the resignation of Mr. M. J. Foley who had served as a member of the Board since 1960. Mr. John G. McLean was appointed a Director to fill this vacancy on the Board. Mr. McLean is President and Chief Executive Officer of Continental Oil Company.

The success achieved by the Company reflects the competence with which employees throughout the organization have performed their functions. The Directors again wish to express their appreciation to the employees.

Submitted on behalf of the Board of Directors:

A handwritten signature in blue ink that reads "L. J. Richards". The signature is written in a cursive, flowing style.

President

Calgary, Alberta
February 24, 1970



GENERAL REVIEW

EXPLORATION REVIEW

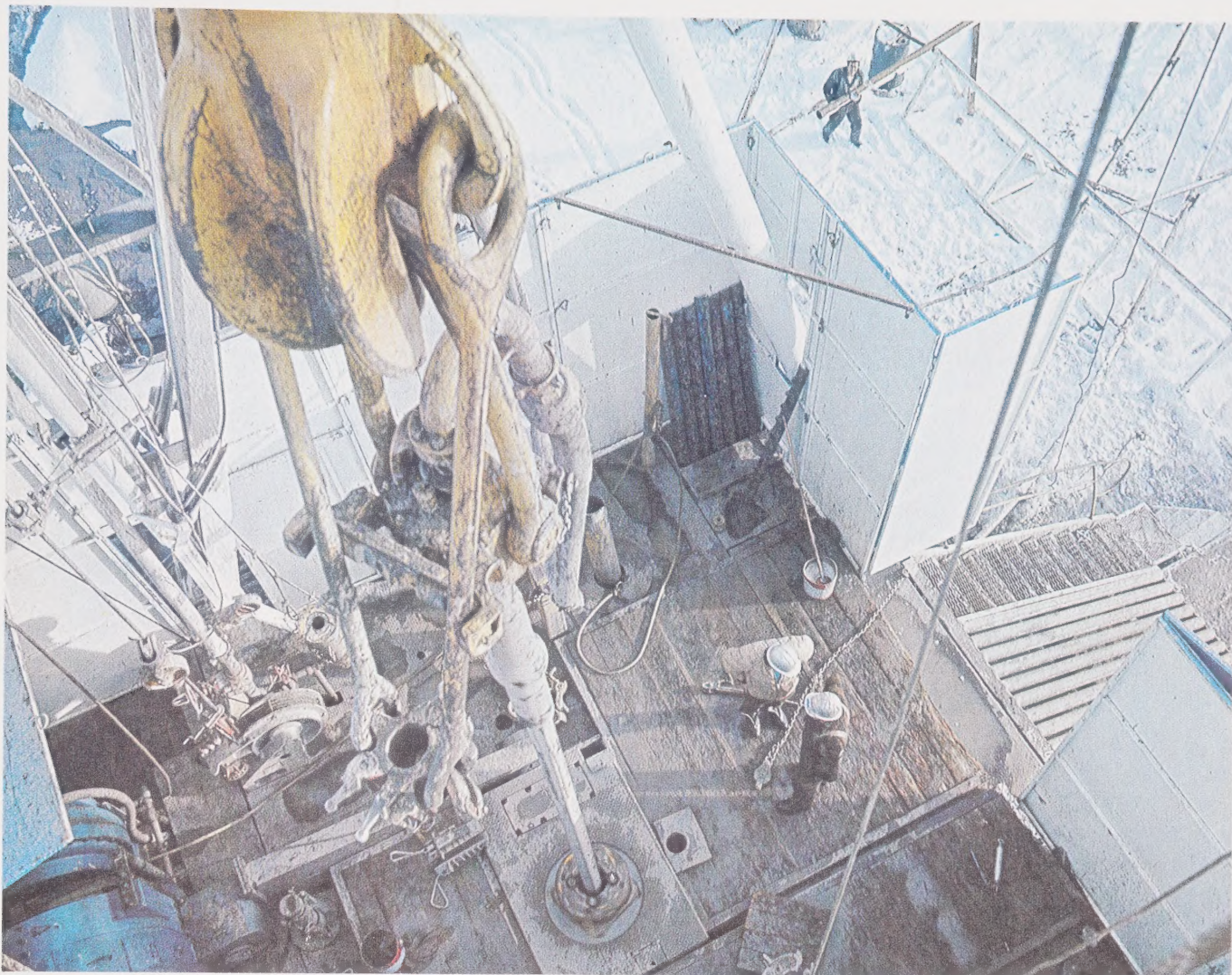
General – The Company's exploration expenditures totalled \$27,640,000 in 1969. This was 42% more than the \$19,408,000 spent for exploration in the previous year. Most of the increase was a result of large outlays for interests in widespread exploratory acreage in the Arctic Islands. Acreage acquisition costs totalled \$14,171,000, an increase of \$8,405,000. Exploratory drilling expenditures, at \$4,031,000, were down \$1,272,000 but a high level of geophysical activity was maintained at a cost of \$4,604,000, up \$466,000. Good progress was made in assembling a staff of mineral exploration specialists and a modest program of exploration for uranium and base metals was carried out during the year at a total cost of \$548,000.

As in previous years, a large share of the Company's petroleum exploration activities were conducted in Alberta, British Columbia, Saskatchewan and the southern portion of the Northwest Territories. Through its Arctic Islands acreage purchase the Company acquired a strong position in the new exploratory play developing in that area, and it also participated in marine geophysical surveys in the Arctic covering its holdings in the Beaufort Sea. During the year additional geophysical surveys were carried out on the Company's land holdings in the Maritimes and locations have been selected for two exploratory tests to be drilled in 1970 on 50% owned acreage in the offshore areas between Nova Scotia and Prince Edward Island.

Discoveries and Extensions – The Company participated in 17 successful exploratory tests in 1969, of which eight were completed as oil wells and nine as gas wells. However, all of the oil wells and two of the gas wells were drilled by others on relatively small blocks of acreage that had been farmed out to them by the Company and it appears unlikely that these discoveries will lead to the development of any significant volumes of reserves. The remaining seven gas discoveries and extensions will require additional drilling to properly evaluate their potential.

At Marlboro in west central Alberta, the Company participated in an Upper Devonian Leduc Reef gas discovery. This well was drilled approximately one mile southwest of a discovery made in 1965 and added to the gas reserves established in this field. The Company owns a 41⅔% interest in the 15,040 acre block on which these wells are located and has a similar interest in several adjacent blocks of lease and reservation acreage.

In northeastern British Columbia, the Company drilled a successful four mile southeasterly extension to the Cypress gas field. Negotiations are currently underway to obtain a gas sales contract for the reserves in this field which is



Lowering the drill stem to resume drilling operations at a Foothills exploratory well

located approximately 20 miles west of the existing trunk pipe line system owned by Westcoast Transmission Company Limited.

In the Sylvan Lake-Caroline area of central Alberta the Company participated in two gas discoveries, both of which are being further evaluated by follow-up wells. In each case, the Company owns a 50% interest in the lands on which the discovery was drilled and also has varying interests in other sizeable blocks in the immediate area of these discoveries.

The Company also participated in gas discoveries or extensions at Evergreen in northeastern British Columbia, Innisfail in Central Alberta and Plato in southwestern Saskatchewan and has interests varying from 100% to 31% in the tracts on which these tests were drilled.

Acreage Holdings — During 1969 the Company acquired 4,189,000 acres of petroleum and natural gas rights, of which 2,713,000 acres were purchased at a cost of \$14,171,000 and 1,476,000 acres

were obtained through filing and other acquisitions that did not require bonus payments.

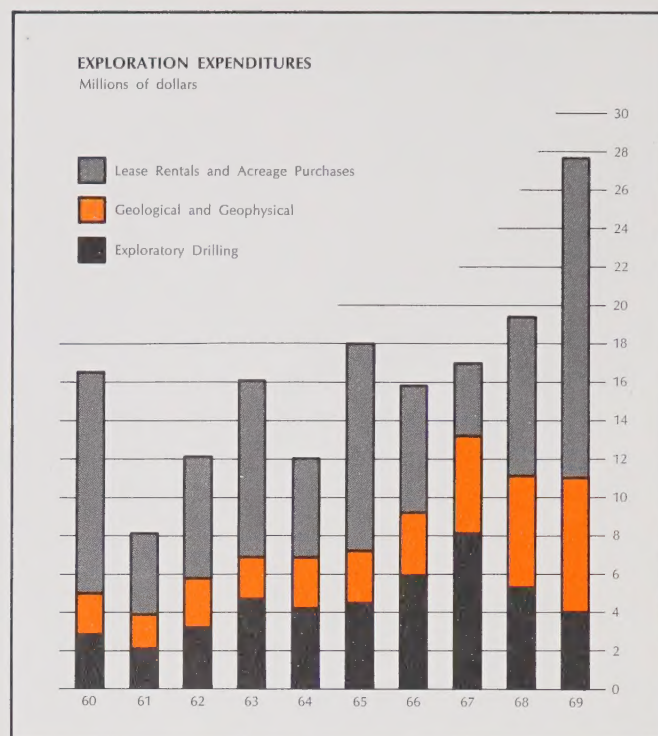
The largest and most significant acquisition was the purchase of an interest in 3,717,000 acres in the Arctic Islands comprising large permit blocks on Bathurst, Cornwallis, Melville, Lougheed, Axel Heiberg and Ellesmere Islands. All of these holdings are subject to a farmout agreement under which Panarctic Oils Ltd. has committed to drill a minimum of four wells and has an option to drill an additional seven wells to earn varying interests in the blocks on which the tests are located.

Dependent upon the number of wells drilled under this farmout program, the Company's net interests in this acreage will be in the range of 17% to 25%. As consideration for these interests, the Company agreed to pay the permit holder a total of \$9,000,000 cash plus an assignment of a 50% interest in 63,000 lease acres in the Panny River area of northern Alberta and a 38% interest in 491,000 permit acres near Fort Simpson in the Northwest Territories.

Other significant acreage acquisitions during the year included purchases in Alberta of a 41 $\frac{2}{3}$ % interest in an 11,840 acre drilling reservation at Marlboro for \$1,295,000, a 12,800 acre drilling reservation in the Strachan area for \$375,000 and 43,360 reservation acres in the Senex area for \$661,000. In Saskatchewan 271,000 permit acres were acquired in the Plato area at a cost of \$273,000. In northeastern British Columbia the Company purchased a total of 148,000 permit acres for \$978,000 and, in the central part of the province, filed on 240,000 acres in the Bowser Basin and 1,020,000 acres in the Chilcotin area.

During the year the Company surrendered or released its interests in 2,034,000 acres of petroleum and natural gas rights. These included 934,000 acres released after geological and geophysical evaluation, 630,000 acres surrendered under governmental regulations on conversion of permits and reservations to lease status, and interests equivalent to 470,000 net acres assigned to other companies in return for drilling wells on Company lands. In addition, 40,000 acres were transferred to the developed category.

At year end the Company held 22,319,000 net acres of undeveloped petroleum and natural gas rights acquired at a total cost of \$45,036,000, or an average of \$2.02 per acre. Rental payments in 1969 totalled \$2,483,000.



UNDEVELOPED PETROLEUM AND NATURAL GAS RIGHTS

Net Acreage Holdings as of December 31, 1969

Location	Crown Permits or Reservations (1)	Leaseholds	Hudson's Bay Company Lands (2)	Fee Lands	Total
Alberta	465,000	1,958,000	1,497,000	85,000	4,005,000
Saskatchewan	1,914,000	399,000	2,327,000	102,000	4,742,000
British Columbia	1,744,000	641,000	6,000	—	2,391,000
Northwest Territories (including Arctic Islands)	5,189,000	8,000	—	—	5,197,000
Maritimes	5,195,000	—	—	—	5,195,000
Manitoba	—	—	700,000	89,000	789,000
	<u>14,507,000</u>	<u>3,006,000</u>	<u>4,530,000</u>	<u>276,000</u>	<u>22,319,000</u>

(1) Convertible into leases to the extent of approximately 50%.

(2) Held under an agreement which permits conversion to leases at any time up to December 31, 1999 without payment of any bonus.

DRILLING REVIEW

During 1969 the Company participated in drilling 244 wells, 78 more than in the previous year. In addition to its direct drilling participation, royalty interests were retained in 40 wells drilled on properties farmed out to others.

Exploratory completions in the year totalled 89 gross wells, an increase of 31 over the number completed in 1968. The 1969 completions include 56 farmout wells in which all or part of the drilling costs were borne by the farmees in exchange for an interest in the lands on which the wells were drilled. Through these farmouts the Company participated in 12 discoveries in which its interests are equivalent to 5.4 net wells. The geographical distribution of the exploratory completions was 26 in Alberta, 51 in Saskatchewan, 7 in the Northwest Territories and 5 in British Columbia.

In 1969, 58.0 net development wells were completed, an increase of 15.6 wells over the prior year. Oil well completions totalled 31.5 net wells, up 12.2 wells. Continued development in the Zama Lake field and infill drilling in the Pembina field accounted for a high percentage of the oil well completions. Gas well completions totalled 19.8 net wells, an increase of 3.6 net wells, with the most active area of gas development being the Kaybob South Beaverhill Lake field.

WELL COMPLETIONS

	1969		1968	
	Gross	Net	Gross	Net
Exploratory				
Oil	8	4.0	6	4.8
Gas	9	4.9	7	3.9
Dry	72	43.1	45	29.5
Total	89	52.0	58	38.2
Average Depth		4,980'		6,515'
Development				
Oil	61	31.5	33	19.3
Gas	77	19.8	61	16.2
Dry	17	6.7	14	6.9
Total	155	58.0	108	42.4
Average Depth		4,650'		6,109'

PRODUCTION REVIEW

Crude Oil — The Company's net crude oil production averaged 42,478 barrels per day in 1969, essentially unchanged from the previous year. Increases in production resulting from improved markets, new wells, and a full year's operation of wells completed in 1968 were almost entirely offset by declines. The most significant reduction occurred at Zama Lake where allowable production rates declined because of downward revisions in the estimated reserves recoverable by primary production methods. It is anticipated that these production rates will increase substantially on completion of the enhanced recovery scheme discussed below.

The average wellhead price received by the Company for its 1969 crude oil production was \$2.37 per barrel, a slight improvement over the

CRUDE OIL PRODUCTION — NET

(Barrels Per Day)

Alberta	1969	1968
Pembina	7,734	7,543
Zama Lake	4,839	5,382
Virginia Hills	2,081	1,745
Sundre	1,545	1,655
Sturgeon Lake South	1,461	1,436
Cessford	1,360	1,093
Kaybob South	1,232	1,353
Medicine River	1,126	1,336
Bonnie Glen	933	822
Innisfail	831	879
Nipisi	715	441
Fenn Big Valley	694	601
Other Fields	7,281	7,518
Total	31,832	31,804
British Columbia		
Milligan Creek	3,959	3,804
Peejay	1,575	1,397
Other fields	566	509
Total	6,100	5,710
Saskatchewan		
Hummingbird	838	885
South Success	779	979
Other fields	2,910	3,055
Total	4,527	4,919
Manitoba	19	19
Total	42,478	42,452

1968 average price of \$2.35 per barrel. This increase reflects modestly higher wellhead prices in a number of fields arising from pipe line tariff adjustments.

Six enhanced recovery projects, which are designed to improve or maintain producing rates and ultimately recover a larger percentage of the oil in place in the reservoir, were completed in 1969. Three of these projects were in pools in the Pembina field, one was in the Nipisi field and one in the Joffre field — all in Alberta — and one was in the Delta field in Saskatchewan. Engineering studies and pilot field tests to evaluate the feasibility of a large scale enhanced recovery scheme for the Zama Lake field have now been completed and indicate that a very substantial increase in recoverable reserves can be obtained. Application for approval to proceed with the project is being made to the Alberta Oil and Gas Conservation Board. Following approval, it will take approximately two years for construction and implementation of the scheme. When the system becomes fully effective, the Company's allowable production rates from Zama Lake will be materially increased.

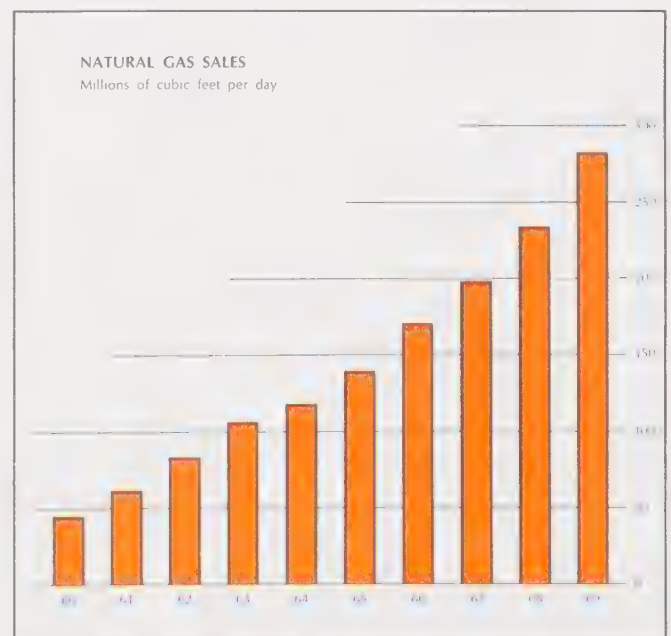
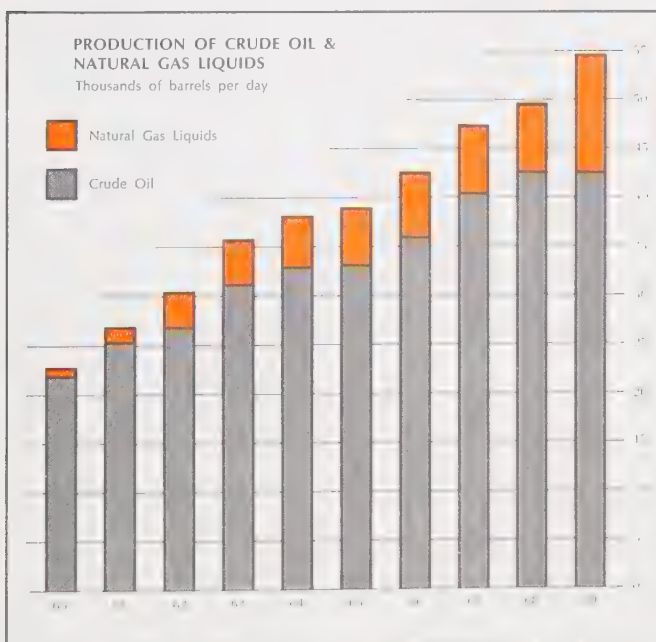
Economies can be achieved by consolidating the operations of various owners within a pool as one unit. Accordingly, the Company continued its active program of unitization and participated in the formation of 20 units in 1969. At year end the

Company had interests in 174 units and was the designated operator of 27 of them.

Natural Gas and Associated Products — New additions to the Company's natural gas processing facilities completed in the latter part of 1968 and early in 1969 resulted in a record volume of production and sales of natural gas, natural gas liquids and sulphur for the year. The growing importance of this segment of the Company's operations is demonstrated by the fact that it generated 43% of total gross operating revenues for 1969 as compared with only 36% in the previous year and 26% five years ago.

In 1969, sales of natural gas averaged 281.7 million cubic feet per day, an increase of 48.4 million cubic feet per day or 21%. The major part of this gain is accounted for by sales from the new Brazeau River and Kaybob South No. 1 gas plants which were brought on stream early in 1969 and from a full year's operation of the Caroline plant which commenced operations in the fall of 1968. The average price obtained for 1969 gas sales was 15.3 cents per thousand cubic feet as compared with 14.6 cents in 1968.

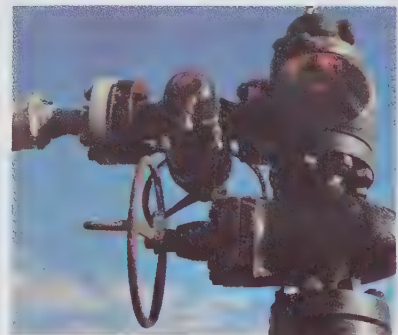
Production of natural gas liquids averaged 11,948 barrels per day, an increase of 4,885 barrels per day or 69% over the prior year. Condensate production, at an average of 10,058 barrels per day, was up 3,967 barrels per day or 65% and production of LPG (propane and butane) averaged



1,890 barrels per day, a gain of 918 barrels per day or 94%. As shown by the accompanying table, most of these increases represented production from new plants.

The average plant price realized from 1969 sales of condensate was \$2.70 per barrel as compared with \$2.74 per barrel in the prior year with the change resulting from minor price variations between the various plant locations. The average plant price received for sales of LPG declined to \$1.08 per barrel as compared with \$1.49 for 1968 caused partially by high interim shipping costs incurred while permanent transportation facilities from new plants were under construction. Also, LPG prices were weak early in 1969 during a period of oversupply but by year end prices had improved with increased demand for LPG. Current market conditions indicate somewhat higher average prices will prevail in 1970.

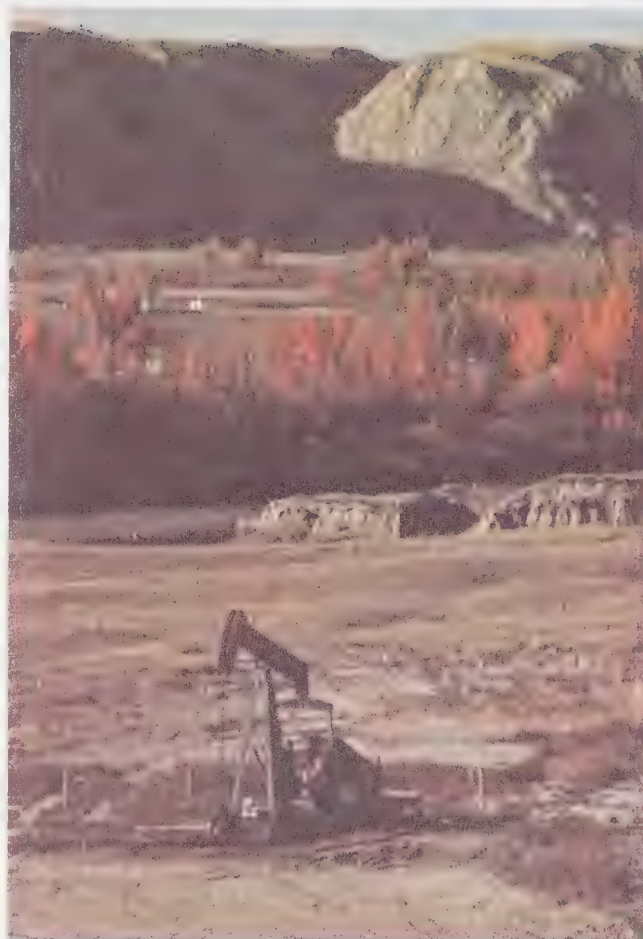
Sulphur production totalled 348,535 long tons (an average of 955 long tons per day) in 1969, an increase of 165,558 long tons or 90%. Most of the increase was from new production at the Kaybob South plant and higher sulphur recoveries at the West Whitecourt plant. With severe over-supply conditions prevailing in world sulphur markets, the Company was unable to dispose of all of its production but did increase its sales by 128,999 long tons or 87% to a total of 277,451 long tons. Revenues from these sales, however, increased by only 6.7% reflecting the continuing sharp decline in world sulphur prices. All of the Company's Whitecourt sulphur production is sold under a long term contract which provides that the hydrogen sulphide contained in the natural gas produced from the field will be converted to sulphur in the purchaser's plant with the Company receiving one-half of the sales value of this sulphur. Production and sales from West Whitecourt totalled 154,071 long tons in 1969, an increase of 64,394 long tons or 72%, and the average net price received was \$12.51 per long ton as compared with \$19.25 per long ton in 1968. The Company's sales of sulphur from plants where it has an ownership interest in the sulphur extraction facilities totalled 123,380 long tons, an increase of 64,605 long tons or 110%. The average price obtained for sulphur sales from these plants was \$19.00 per long ton in 1969 as compared with \$38.76 in the previous year.



Top picture: Loading sulphur into rail cars
Centre: Loading LPG for rail shipment
Above right: Wellhead on a gas producer in the Lone Pine Creek Field

Further expansion of the Company's gas processing facilities was achieved in 1969 with the principal additions being a second major gas plant and gathering system at Kaybob South to process reserves from the central portion of the field, an expansion of the Edson gas plant, and the construction of a gas processing and crude oil upgrading facility for the Sturgeon Lake South field, all of which are operated by the Company. The new Sturgeon Lake South and Edson facilities were completed and brought into operation in September and November of 1969 respectively, adding 13 million cubic feet of natural gas, 150 barrels of natural gas liquids and 13 long tons of sulphur to the Company's daily net production.

Producing oilwell
in the "Badlands"
near Drumheller



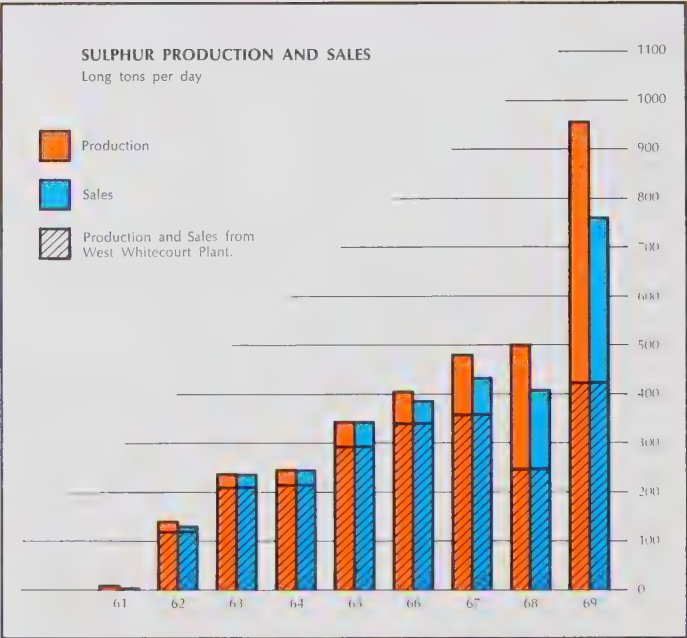
NATURAL GAS AND ASSOCIATED PRODUCTS — NET

Location	Natural Gas Sales (Million Cubic Feet Per Day)		Natural Gas Liquids Production				Sulphur Production (Long Tons Per Day)	
	1969	1968	Condensate (Barrels Per Day)		L.P.G. (Barrels Per Day)		1969	1968
Bigstone	3.5	1.4	—	—	—	—	35	20
Brazeau	—	—	461	—	—	—	11	—
Caroline	15.0	4.3	503	171	323	83	4	2
Cessford	41.1	41.3	114	98	—	—	—	—
Clarke Lake	17.7	17.3	—	—	—	—	—	—
Crossfield East	2.6	1.3	29	27	—	—	53	43
Edson	53.1	60.5	636	527	—	—	41	41
Gilby	4.7	4.0	64	46	—	—	—	—
Harmattan	—	—	401	406	218	219	—	—
Kaybob South	5.6	0.3	2,887	94	484	—	205	—
Lone Pine Creek	16.3	11.8	648	340	—	—	69	30
Pembina	7.8	9.7	26	36	76	92	—	—
Provost	4.4	4.6	16	19	—	—	—	—
Rimbey	6.2	6.1	298	282	296	303	6	6
Sylvan Lake	10.1	9.5	223	169	374	151	—	—
Whitecourt	35.0	31.3	3,310	3,463	—	—	485	318
Wildcat Hills	3.8	3.2	31	28	—	—	6	5
Wimborne	2.2	2.2	129	110	—	—	18	13
Other locations	25.8	24.5	282	275	119	124	22	22
	<u>281.7</u>	<u>233.3</u>	<u>10,058</u>	<u>6,091</u>	<u>1,890</u>	<u>972</u>	<u>955</u>	<u>500</u>



Caroline gas processing plant
with sulphur storage block
in the foreground

The Kaybob South No. 2 plant has been brought into operation since the year end and the Company's net share of the output of this plant is expected to average about 3.6 million cubic feet of natural gas, 1,800 barrels of natural gas liquids and 165 long tons of sulphur per day for 1970. The Company also will have a substantial ownership interest in a third major plant at Kaybob South which is being constructed and will be operated by another company to serve the southern portion of the field. This No. 3 plant, which will have a capacity approximately 30% larger than the combined capacity of the Kaybob South No. 1 and No. 2 plants, is scheduled for completion in 1971.



Reserves – The Company's net remaining recoverable reserves at year end (after deducting all royalties and interests owned by others) as estimated by its reservoir engineering staff are shown in the accompanying table. The estimated proved reserves include only such reserves as can reasonably be classified as proved in accordance with widely accepted American Petroleum Institute standards. Probable reserves include reserves which are substantially proved on undrilled tracts closely associated with proved reserves and for which geological control is sufficient to offer good indication of continuity of the producing horizon. Incremental reserves from enhanced recovery techniques are included in the probable category when the required facilities are installed and are transferred to the proved category only after the anticipated reservoir performance has been confirmed. Liquefied petroleum gases are not included in the reported reserves of natural gas liquids unless the facilities required for their extraction are in existence or are assured of construction. Heavy oil in the Athabasca Tar Sands and Frenchman Butte areas has not been included.

In 1969 additions to the Company's liquid hydrocarbon reserves totalled 30,523,000 barrels as compared with total production of 19,865,000 barrels, for a resulting net gain of 10,658,000 barrels in remaining recoverable reserves. Most of the additions were in natural gas liquids while crude oil accounted for approximately three quarters of the production volume. As a result, the net change for the year in remaining recoverable reserves was an increase of 17,646,000 barrels in the case of natural gas liquids and a decrease of 6,988,000 barrels for crude oil. Additions to natural gas reserves totalled 150 billion cubic feet

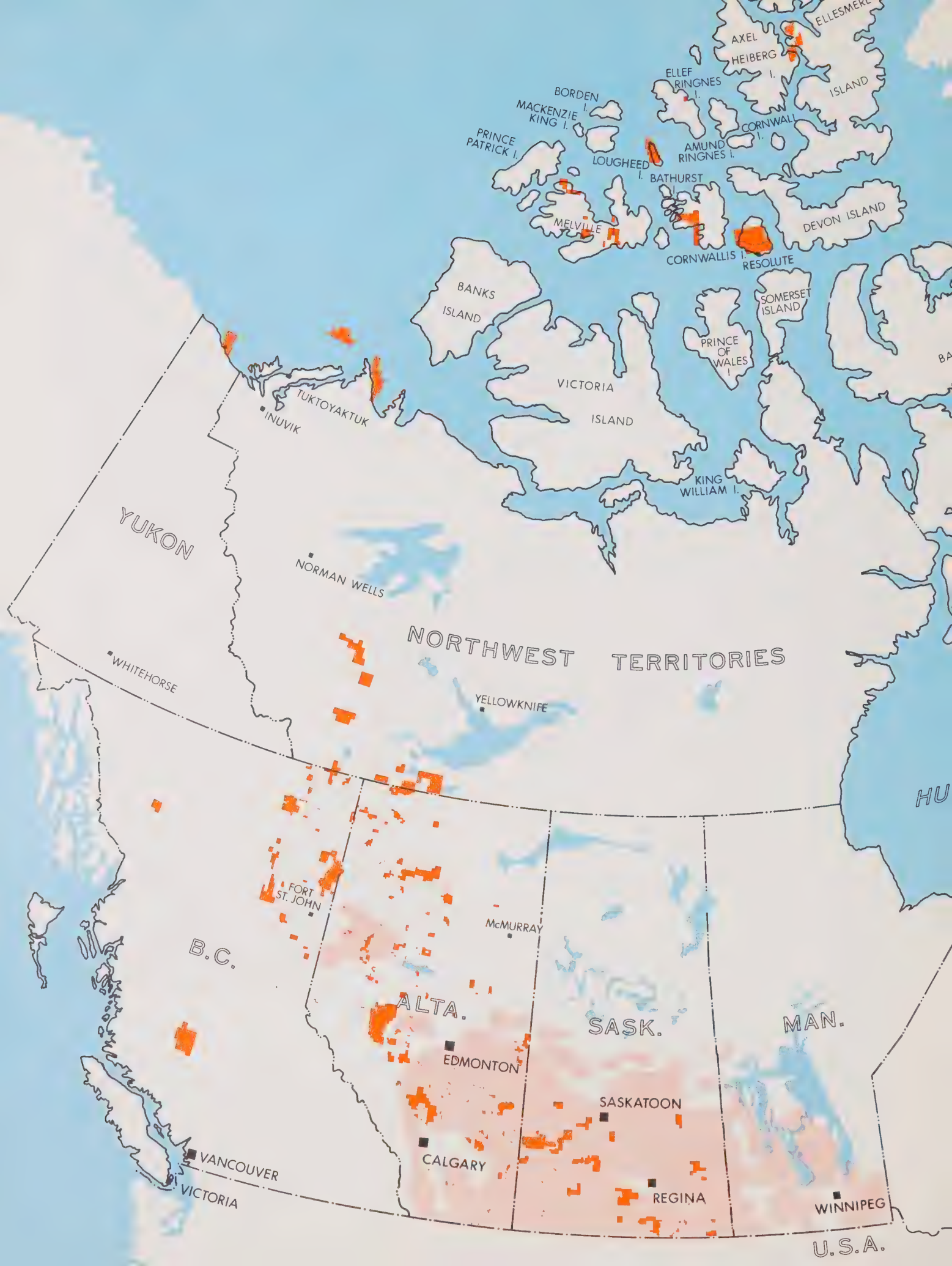
as compared with production of 103 billion cubic feet during the year with a consequent increase of 47 billion cubic feet in remaining recoverable reserves. Additions to sulphur reserves substantially exceeded the 349,000 long tons produced in 1969 and the net gain in remaining recoverable reserves was 270,000 long tons.



NET RESERVES
December 31, 1969

	Crude Oil (barrels)	Natural Gas Liquids (barrels)	Natural Gas (million cubic feet)	Sulphur (long tons)
Proved	258,206,000	102,488,000	2,899,000	8,818,000
Probable ..	23,770,000	2,331,000	282,000	942,000
Total	281,976,000	104,819,000	3,181,000	9,760,000

Top picture: High pressure well head in the Kaybob South gas field
Above: Interior view of the waterflood station in the Sundre oilfield



YUKON

NORTHWEST TERRITORIES

WHITEHORSE

NORMAN WELLS

YELLOWKNIFE

B.C.

ALTA.

SASK.

MAN.

U.S.A.

FORT ST. JOHN

McMURRAY

EDMONTON

CALGARY

SASKATOON

REGINA

VANCOUVER

VICTORIA

WINNIPEG

BANKS ISLAND

VICTORIA ISLAND

PRINCE OF WALES I.

SOMERSET ISLAND

DEVON ISLAND

CORNWALLIS I.

RESOLUTE

BATHURST

LOUGHEED I.

BORDEN I.

MACKENZIE KING I.

PRINCE PATRICK I.

MELVILLE

ELLEF RINGNES I.

AMUND RINGNES I.

AXEL

HEIBERG I.

ISLAND

ELLESMERE

MAP SHOWING
ACREAGE HOLDINGS
of
Hudson's Bay Oil and Gas Company Limited
at December 31, 1969

LEGEND

The areas within which the Company has substantial holdings of petroleum and natural gas rights are indicated by the orange color

The Company has the exclusive right until December 31, 1999 to acquire leases on all petroleum and natural gas rights owned by Hudson's Bay Company. This right covers approximately 4,500,000 acres of lands, most of which are distributed in a regular pattern, basically all or part of two one-square mile sections in each 36-section township — in the areas covered by this orange tinting

0 100 200 300
MILES



SUPPLY AND TRANSPORTATION REVIEW

Pipe Lines – During 1969 the Company's pipe line systems gathered and transported an average of 70,135 barrels per day of crude oil and natural gas liquids, an increase of 3,557 barrels per day or 5.3% over the previous year. The larger throughput volume resulted in an 8.4% increase in transportation revenues.

Expenditures for additions and extensions to the Company's systems amounted to \$938,000 and brought total investment in pipe line properties to \$30,713,000 at year end. At that time, these properties included 420 miles of trunk line and 425 miles of gathering facilities plus an additional 23 miles of 6-inch gathering line under construction at year end to connect a new oil field in the Ricinus area to the Sundre station. This extension is scheduled for initial operation early in 1970.

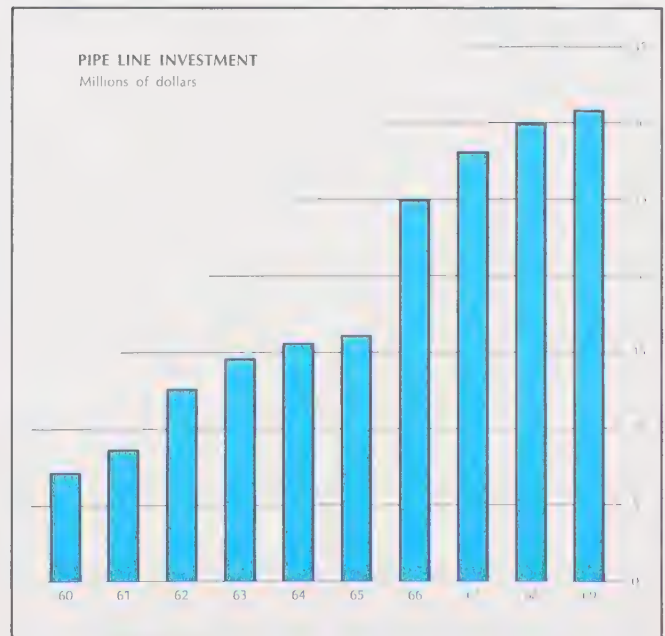
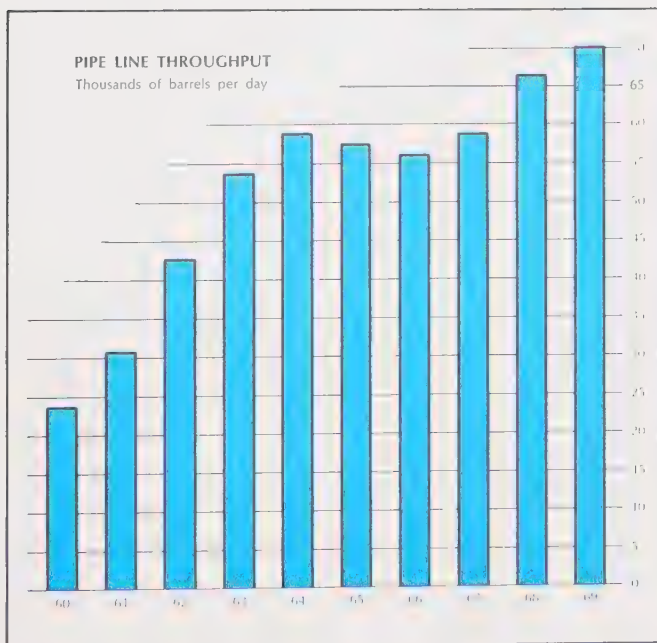
The Company maintained its investment interests of 16% in Peace River Oil Pipe Line Co. Ltd., and 4% in Producers Pipelines Ltd. These producer-owned systems operate extensive crude oil gathering and trunk line facilities in northern and north central Alberta, and in southeast Saskatchewan respectively.

Other Operations – Further expansion was achieved during 1969 in the Company's crude oil trading operations and wholesale marketing and transportation of LPG. Crude oil trading volumes and the requirements of refinery customers served by this operation increased significantly. The volume of LPG's handled also rose substantially as a result of increased production of these products from the Company's gas plant operations.

The retail propane business carried on by the Company's wholly-owned subsidiary, Blue Flame Propane Ltd., also showed good growth in 1969 and its area of operations was expanded by opening new branches in Vancouver, British Columbia, Grande Prairie, Alberta, and Grenfell, Saskatchewan. The volume of propane sold through the Blue Flame operation was 10.1 million gallons, an increase of 1.8 million gallons or 22% from the previous year. These sales provided a market for almost 63% of the Company's total propane production.



Above: Transporting propane
At right: Pipeline pumping station
at Pincher Creek



EMPLOYEES

Below: Electrical maintenance at the Kaybob South gas plant Bottom picture: Gauging a crude oil storage tank



At year end the Company and its subsidiaries had a total of 938 employees, an increase of 89 from the beginning of the year. A large share of the additions during the year were required to staff two new gas plants. The total cost of salaries, wages and employee benefits reached \$9,096,000 in 1969, an increase of 21% over the prior year.

To assist in meeting its continuing requirements for competent professional and technical staff, the Company again recruited at many of the major universities across Canada and at several technical schools. The Company sponsored training programs, both on the job and through facilities available at educational institutions, to further develop the technical and managerial skills of its employees.

Through its Financial Aid to Education Program, the Company contributed a total of \$87,000 in grants and scholarships to universities and technical schools and in payments to employees of 75% of the costs of work-related courses successfully completed on their own time. More than 100 employees received payments under this program in 1969.

Additional attention was focused on the Company's safety programs in 1969, with particular emphasis on gas plant operations. This continuing emphasis on safe operating practices resulted in a further reduction in the frequency of disabling injuries and enabled the Company to maintain its position of having one of the lowest accident frequency records in the petroleum industry.

Most of the employees participate in the Company's Thrift Plan which is designed to encourage savings by having the Company make contributions in proportion to the amounts deposited by employees. At year end the assets of the Plan, which are held by a trustee, totalled \$1,437,000 at cost value, and had a market value of \$1,759,000. These assets included 4,816 preferred shares and 26,470 common shares of the Company's capital stock purchased on instructions of employees for their accounts.

The Retirement Plan for employees of the Company is fully funded and at year end the trustee held cash and securities under the Plan with a total market value of approximately \$3,833,000. Approximately 51% of the Fund's assets were held in equity investments, 41% in medium and long term fixed-income obligations and 8% in cash and short term obligations.



FINANCIAL REVIEW

FINANCIAL REVIEW

Net earnings in 1969 were \$27,030,000, a 0.9% increase over the \$26,790,000 earned in 1968. The 1969 results, however, are after providing for an estimated income tax liability of \$2,360,000 whereas previously no provision had been required for income taxes, except for a very minor amount in a subsidiary company, because of the accumulated deductions for drilling and exploration expenditures carried forward from prior years. After deducting preferred dividends, the 1969 earnings amounted to \$1.40 per common share as compared with \$1.38 per share in 1968. Funds generated from operations, after providing for income taxes, totalled \$44,794,000, a gain of 4.8% over the \$42,751,000 generated in the previous year. After deducting preferred dividends, funds generated from operations amounted to \$2.37 per common share in 1969 as compared with \$2.25 per share in the previous year.

Dividends declared for the year totalled \$10,647,000, the same amount as in 1968. Four regular quarterly dividends of 62½ cents per share – a total of \$1,500,000 – were declared on the Series A preferred shares. The total dividend on the common shares, at \$9,147,000, was unchanged but in 1969 was declared in two semi-annual payments of 25 cents per share as compared with a single annual dividend of 50 cents per share in 1968.

Gross operating revenues totalled \$76,495,000 for the year, an increase of \$9,611,000 or 14.4%. The accompanying table shows the major sources of operating revenues and changes from the prior year. The reasons for the changes have been discussed in the various operations sections of

this report. Income from investments and other miscellaneous sources totalled \$4,867,000, a gain of \$980,000. Most of this increase was derived from a higher rate of earnings on a greater amount of temporarily invested funds and from larger gains on disposals of assets.

Total expenses for the year were \$54,332,000, an increase of \$10,351,000 or 23%. Operating expenses, at \$26,961,000, were up \$4,093,000. The major factors in the increase were an additional \$1,099,000 of exploration expenses, essentially for geophysical programs, and a \$2,354,000 increase in production expenses most of which was incurred for the operation of new gas plants. Charges for depletion, depreciation and amortization, at \$15,256,000, were \$2,325,000 higher with a larger provision for depletion arising from greater production volumes and additional depreciation resulting from the large new investment in gas plants. Amortization charges for undeveloped acreage increased as a result of the additional investment in acreage and an increase in the amortization rate which was occasioned by the change in composition of the Company's undeveloped acreage holdings. The Company employs the "taxes payable" basis of accounting for income taxes and, accordingly, made provision in 1969 for an estimated \$2,360,000 of income taxes currently payable with respect to the year's operations. The contingent future liability for income taxes which would have been provided for in 1969 if the Company had followed the "deferred tax" accounting concept in respect of all timing differences between accounting income and taxable income, is set forth in Note 4 to the Financial Statements.

GROSS OPERATING REVENUES

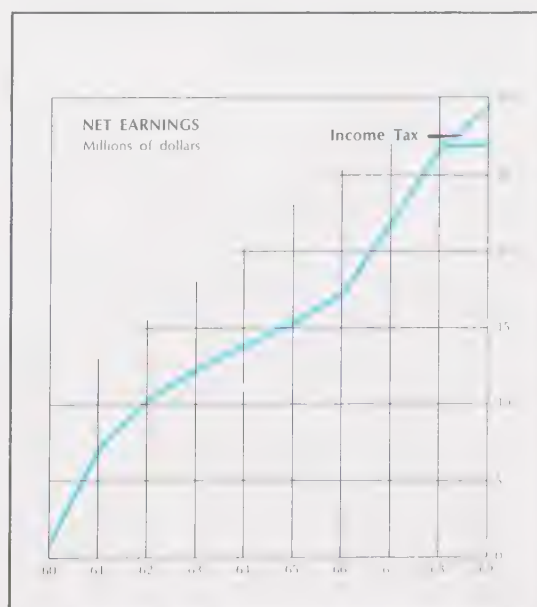
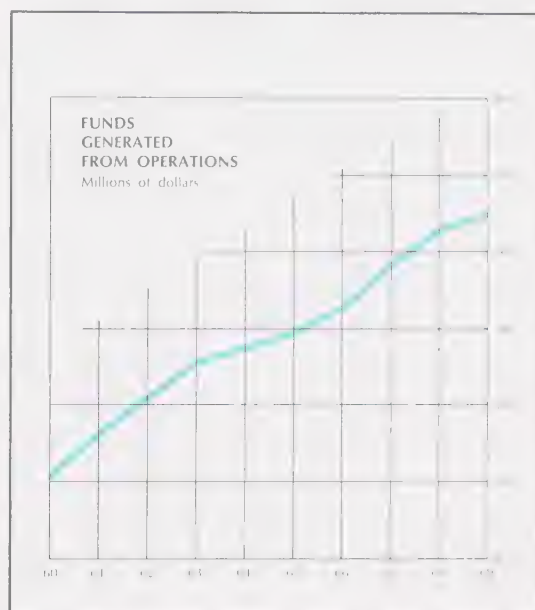
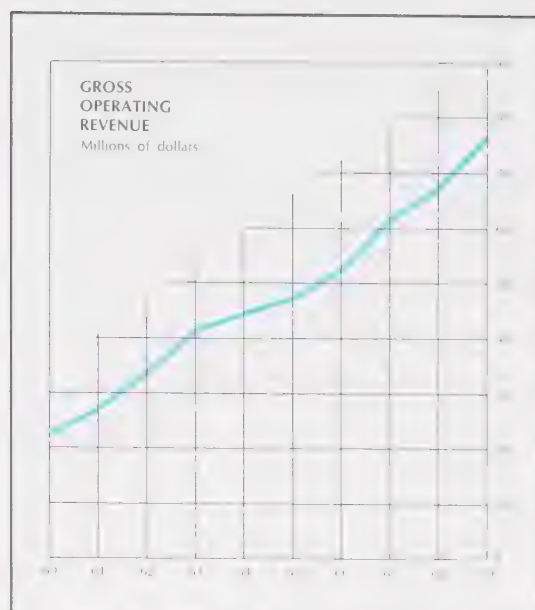
Category	Amount in 1969	Percentage of Total	Amount in 1968	Percentage of Total	Increase (Decrease) from 1968	
					Amount	Per Cent
Crude Oil	\$36,580,000	47.8	\$36,671,000	54.8	\$ (91,000)	(0.2)
Natural Gas Liquids	10,593,000	13.8	6,490,000	9.7	4,103,000	63.2
Natural Gas	15,742,000	20.6	12,445,000	18.6	3,297,000	26.5
Sulphur	4,272,000	5.6	4,004,000	6.0	268,000	6.7
Processing Non-Owned Gas	2,659,000	3.5	1,381,000	2.1	1,278,000	92.5
Pipe Line & Product Distribution	6,649,000	8.7	5,893,000	8.8	756,000	12.8
Total	<u>\$76,495,000</u>	<u>100.0</u>	<u>\$66,884,000</u>	<u>100.0</u>	<u>\$9,611,000</u>	<u>14.4</u>

Capital expenditures for the year totalled \$39,679,000, a reduction of \$12,677,000 or 24% from the abnormally high level of 1968. Although \$8,663,000 was spent for gas plants and related facilities in 1969, this was \$17,765,000 less than the comparable outlays for such facilities in the prior year when five large gas plants were under construction. Expenditures for exploratory drilling and for pipe line and product distribution facilities also declined, by \$1,272,000 and \$1,809,000 respectively, but expenditures for acquisition of acreage were \$8,405,000 greater than in 1968.

Proceeds from the disposal of properties and investments during the year totalled \$2,389,000. The most significant item was the sale of the Company's minority interest in a silver producing company, Echo Bay Mines Ltd., for \$1,000,000 cash.

The Company also obtained \$5,175,000 in cash from partial prepayments for natural gas sales which it has contracted to deliver from the No. 2 and No. 3 plants at Kaybob South. The prepayments represent less than 10% of the total sales value of the contracted reserves and are to be applied in partial payment for the volumes delivered during the first ten years of the twenty year contract period. The prepayments have been set up on the Company's balance sheet as deferred credits and will be taken into revenues at the same rate as they are applied in payment of gas deliveries.

The amount of funds required in 1969 for capital expenditures, dividends, retirement of debt and other miscellaneous outlays exceeded the funds generated from operations and those obtained from disposals of properties and investments and from gas sales prepayments by \$5,325,000. The Company entered the year with \$16,510,000 of cash and short term investments and in the spring sold \$25,000,000 of 7.85% Collateral Trust Bonds due 1994 payable in United States currency. The Collateral Trust Bonds are direct obligations of the Company secured by the pledge of an equal principal amount of a new series of its First Mortgage Bonds that rank equally with all other outstanding series of its First Mortgage Bonds. The sale of the Collateral Trust Bonds was underwritten by a large group of investment banking firms who offered them to the public in the United States at their par value. When converted to Canadian funds, the proceeds from the sale of this issue amounted to \$26,909,000. The net result of these various transactions during the year was a \$21,584,000 addition to working capital and the Company ended the year in a strong liquid position with \$33,234,000 in cash and short term investments.



Hudson's Bay Oil and Gas Company Limited and Subsidiary Companies

CONSOLIDATED BALANCE SHEET - DECEMBER 31, 1969 AND 1968

ASSETS

	1969	1968
CURRENT ASSETS		
Cash	\$ 1,374,000	\$ 1,558,000
Short term investments at cost, which approximates market	31,860,000	14,952,000
Accounts receivable (Note 5)	20,257,000	18,862,000
Inventories		
Products at lower of average cost or realizable value ..	1,462,000	508,000
Materials and supplies at or below average cost	1,275,000	1,507,000
Total Current Assets	56,228,000	37,387,000
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 2)		
At cost	370,027,000	337,546,000
Less: Accumulated depreciation, depletion and amortization	119,008,000	105,718,000
	251,019,000	231,828,000
OTHER ASSETS		
Production payments receivable	3,761,000	9,866,000
Less: Loans repayable therefrom (Note 6)	3,761,000	9,866,000
	-	-
Investments in non-controlled companies at cost	1,793,000	1,937,000
Unamortized bond discount and expense	821,000	404,000
Unamortized goodwill	286,000	304,000
Deposits, deferred charges and miscellaneous assets at cost	3,360,000	2,467,000
	6,260,000	5,112,000
	\$313,507,000	\$274,327,000

Approved on behalf of the Board:

L. J. Richards, DIRECTOR

D. B. Jones, DIRECTOR

LIABILITIES AND SHAREHOLDERS' EQUITY

	1969	1968
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	\$ 19,226,000	\$ 19,342,000
Dividends payable (Note 5)	4,949,000	9,522,000
Income and other taxes payable	2,407,000	269,000
Long term debt due within one year (Note 6)	4,238,000	4,430,000
Total Current Liabilities	30,820,000	33,563,000
LONG TERM DEBT (Note 6)	83,061,000	62,593,000
DEFERRED CREDITS		
Advances received on future natural gas sales	5,175,000	—
Other	1,540,000	1,643,000
	6,715,000	1,643,000
SHAREHOLDERS EQUITY		
Capital stock (Note 7)		
Authorized		
Preferred — \$50 par value — 1,500,000 shares		
Common — \$2.50 par value — 25,000,000 shares		
Issued and outstanding		
5% Cumulative redeemable convertible preferred shares series A — 600,000 shares	30,000,000	30,000,000
Common — 18,294,044 shares	45,735,000	45,735,000
Contributed surplus	21,095,000	21,095,000
Retained earnings	96,081,000	79,698,000
	192,911,000	176,528,000
	\$313,507,000	\$274,327,000

See accompanying notes

CONSOLIDATED STATEMENT OF EARNINGS

Years ended December 31, 1969 and 1968

	<u>1969</u>	<u>1968</u>
REVENUES		
Gross operating revenues	\$ 76,495,000	\$66,884,000
Investment and other income	4,867,000	3,887,000
	<u>81,362,000</u>	<u>70,771,000</u>
EXPENSES		
Exploration	9,438,000	8,339,000
Production	13,416,000	11,062,000
Pipe line and product distribution	2,119,000	1,839,000
General administrative	1,988,000	1,628,000
Depletion	5,305,000	4,814,000
Depreciation	7,498,000	6,353,000
Amortization of undeveloped oil and gas rights	2,453,000	1,764,000
Dry holes and abandonments	4,005,000	3,852,000
Interest (Note 6)	5,588,000	4,059,000
Other	162,000	251,000
	<u>51,972,000</u>	<u>43,961,000</u>
NET EARNINGS BEFORE INCOME TAXES	29,390,000	26,810,000
Income taxes (Note 4)	2,360,000	20,000
NET EARNINGS (Note 1)	<u>\$ 27,030,000</u>	<u>\$26,790,000</u>
NET EARNINGS PER COMMON SHARE (after preferred dividends)	<u>\$1.40</u>	<u>\$1.38</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31, 1969 and 1968

	<u>1969</u>	<u>1968</u>
Retained Earnings – January 1	\$ 79,698,000	\$63,555,000
Net Earnings	27,030,000	26,790,000
	<u>106,728,000</u>	<u>90,345,000</u>
Dividends Declared		
Preferred shares	1,500,000	1,500,000
Common shares	9,147,000	9,147,000
	<u>10,647,000</u>	<u>10,647,000</u>
Retained Earnings – December 31	<u>\$ 96,081,000</u>	<u>\$79,698,000</u>
<i>See accompanying notes</i>		

CONSOLIDATED STATEMENT OF SOURCES AND USES OF FUNDS

Years ended December 31, 1969 and 1968

	<u>1969</u>	<u>1968</u>
SOURCES OF FUNDS		
Net earnings	\$ 27,030,000	\$ 26,790,000
Add non-cash items included in net earnings:		
Depreciation, depletion and amortization	15,256,000	12,931,000
Dry holes and abandonments	4,005,000	3,852,000
Other	(1,497,000)	(822,000)
Funds generated from operations	44,794,000	42,751,000
Sale of Collateral Trust Bonds	26,909,000	—
Sale of properties and investments	2,389,000	2,629,000
Advances received on future natural gas sales	5,175,000	—
TOTAL FUNDS AVAILABLE	<u>\$ 79,267,000</u>	<u>\$ 45,380,000</u>
USES OF FUNDS		
Expenditures for property, plant and equipment	\$ 39,679,000	\$ 52,356,000
Reduction of long term debt	6,441,000	7,150,000
Dividends declared	10,647,000	10,647,000
Miscellaneous – net	916,000	770,000
TOTAL FUNDS USED	<u>\$ 57,683,000</u>	<u>\$ 70,923,000</u>
RESULTING INCREASE (DECREASE)		
In cash and short term investments	\$ 16,724,000	\$(22,006,000)
In other working capital items	4,860,000	(3,537,000)
IN TOTAL WORKING CAPITAL	<u>\$ 21,584,000</u>	<u>\$(25,543,000)</u>

See accompanying notes

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Hudson's Bay Oil and Gas Company Limited and subsidiary companies as of December 31, 1969 and the consolidated statements of earnings, retained earnings and sources and uses of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except that provision for taxes on income has not been made on the deferred tax basis in respect of depreciable assets as explained in Note (4), these consolidated financial statements present fairly the financial position of the Company and subsidiary companies at December 31, 1969 and the results of their operations and the sources and uses of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Calgary, Alberta
February 2, 1970

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of Hudson's Bay Oil and Gas Company Limited and its subsidiary companies, each of which is wholly owned. The consolidated net earnings include the results of subsidiary companies from their respective dates of acquisition and where the purchase price of shares of subsidiaries exceeded their net book values the excess has been allocated to the assets acquired and additional depreciation, depletion and amortization has been provided accordingly. Where excess cost relates to the purchase of goodwill such goodwill is amortized over a ten year period.

Exploration expenses are charged against earnings as incurred.

Costs of oil and gas rights are capitalized when acquired. A regular charge is made to earnings for amortization of undeveloped oil and gas rights and when undeveloped rights are surrendered the cost is charged against the accumulated amortization. When rights are proven to be productive the original cost is transferred to the developed oil and gas rights account and written off by a depletion charge calculated on the unit of production method.

All costs of drilling wells are initially capitalized. If, on completion, a well is not capable of commercial production its cost is immediately written off. The costs of successful wells, other than equipment costs, are written off by depletion charges on the unit of production method in the same manner as the cost of developed oil and gas rights.

Plant, pipe line and equipment costs are depreciated on the straight line method at rates estimated to write off the costs over the useful lives of the assets, except that certain pipe line assets are depreciated on the unit of throughput method.

(2) PROPERTY, PLANT AND EQUIPMENT:

	Assets at Cost	Accumulated Depreciation	Accumulated Depletion	Accumulated Amortization	Net
Undeveloped oil and gas rights	\$ 45,036,000	\$ —	\$ —	\$5,655,000	\$ 39,381,000
Developed oil and gas rights	32,864,000	—	11,130,000	—	21,734,000
Oil and gas rights on Hudson's Bay Company lands	1,000	—	—	—	1,000
Wells and related facilities	182,600,000	28,837,000	54,176,000	—	99,587,000
Plants and related facilities	73,166,000	10,863,000	—	—	62,303,000
Pipe line and product distribution facilities	33,741,000	7,210,000	—	—	26,531,000
Other	2,619,000	1,137,000	—	—	1,482,000
Total — December 31, 1969	<u>\$370,027,000</u>	<u>\$48,047,000</u>	<u>\$65,306,000</u>	<u>\$5,655,000</u>	<u>\$251,019,000</u>
Total — December 31, 1968	<u>\$337,546,000</u>	<u>\$41,859,000</u>	<u>\$60,322,000</u>	<u>\$3,537,000</u>	<u>\$231,828,000</u>

Pursuant to an agreement the Company has an exclusive right until December 31, 1999, to lease any or all of the petroleum and natural gas rights owned by Hudson's Bay Company. The exercise of this right requires no bonus payment. The Hudson's Bay Company lands subject to this agreement totalled 4,530,000 acres at December 31, 1969, primarily in the Provinces of Alberta, Saskatchewan and Manitoba. A nominal value of \$1,000 has been assigned to these rights.

(3) REMUNERATION OF DIRECTORS:

Remuneration paid or payable by the Company and its subsidiaries to the Company's directors, including directors holding salaried employment as officers, totalled \$165,000 in 1969. Remuneration to other senior officers totalled \$185,000.

(4) INCOME TAXES:

In determining taxable income under the provisions of the Income Tax Act and Regulations, the Company and each of its subsidiaries is permitted to deduct currently: exploration expenses; the acquisition costs of petroleum and natural gas rights; the costs of drilling both successful and unsuccessful wells; and capital cost allowances greater than depreciation reported in their accounts. Any excess of such deductions over income may be carried forward and applied in subsequent years. After claiming maximum allowable deductions, the liability for income taxes for all companies is estimated to be \$2,360,000, in respect to 1969 operations as compared with \$20,000 in 1968.

If the Company had followed the deferred tax accounting concept in respect of all timing differences between accounting income and taxable income, provisions for deferred income taxes of \$8,147,000 for 1969 and \$9,389,000 for 1968 would have been required and the cumulative amount at December 31, 1969 would have been approximately \$53,844,000. If the Company had provided deferred taxes solely on timing differences related to depreciable assets, deferred income taxes would have been provided in amounts of \$4,272,000 in 1969 and \$2,531,000 in 1968.

(5) AMOUNTS OWING TO AND FROM AFFILIATED COMPANIES:

Accounts receivable include \$7,095,000 due from Continental Oil Company and its subsidiaries. Accounts payable include \$344,000 due to Continental Oil Company and \$64,000 due to Hudson's Bay Company. The fore-

going balances resulted from transactions in the normal course of business. Dividends payable include \$3,006,000 due to Continental Oil Company and \$1,002,000 due to Hudson's Bay Company.

(6) LONG TERM DEBT:

First Mortgage Sinking Fund Bonds	Due Within One Year	Long Term Portion
4% Series A, due May 1, 1975 – remaining sinking fund requirements \$870,000 in 1971, \$1,000,000 per annum – 1972 to 1974 and \$10,000,000 at maturity	\$ –	\$13,870,000
5% Series B, due October 1, 1971 – remaining sinking fund requirements \$50,000 per annum in 1970 and 1971	50,000	50,000
5¾% Series C, due August 1, 1977 – remaining sinking fund requirements \$125,000 in 1971, \$160,000 per annum 1972 to 1976 and \$100,000 at maturity	–	1,025,000
5½% Series D, due June 15, 1983 – remaining sinking fund requirements \$188,000 in 1970, \$1,500,000 per annum 1971 to 1982 and \$7,500,000 at maturity	188,000	25,500,000
7% Series E, due January 3, 1987 – remaining sinking fund requirements \$207,000 in 1971, \$500,000 in 1972 and \$600,000 per annum 1973 to 1987	–	9,707,000
7.85% Series F, due April 15, 1994 (U.S. \$25,000,000 issued and pledged to secure payment of the 7.85% Collateral Trust Bonds due 1994)	–	–
	<u>238,000</u>	<u>50,152,000</u>
Collateral Trust Bonds		
7.85% Collateral Trust Bonds due April 15, 1994 – sinking fund requirements U.S. \$1,250,000 per annum 1979 to 1993 and U.S. \$6,250,000 at maturity. (U.S. \$25,000,000 recorded at exchange rate in effect at date of issue)	–	26,909,000
		<u>26,909,000</u>
Term Loan		
Secured by assignment of hydrocarbon reserves. Interest at prime bank rate for production loans, principal repayable in ten quarterly installments of \$1,000,000 each with final installment due April 1, 1972	4,000,000	6,000,000
	<u>4,238,000</u>	<u>\$83,061,000</u>
Total – December 31, 1969	<u>\$4,238,000</u>	<u>\$83,061,000</u>
Total – December 31, 1968	<u>\$4,430,000</u>	<u>\$62,593,000</u>

On the foregoing long term debt the aggregate payments of principal required in each of the next five years are as follows: \$4,238,000 in 1970; \$6,752,000 in 1971; \$5,160,000 in 1972; \$3,260,000 in 1973 and \$3,260,000 in 1974.

The loans of \$3,761,000 recorded as a deduction from production payments receivable were incurred for the purposes of financing the cost of acquiring certain petroleum and natural gas rights which have been assigned as security for these loans. Since repayments of these loans and interest thereon is to be made exclusively from the proceeds of production from the assigned interests and the Company has no other obligation, the loans have been deducted from the production payments receivable.

Interest of \$5,588,000 includes interest of \$5,045,000 on long term debt described in the above table; interest of \$524,000 on production loans described in the preceding paragraph; and other interest charges of \$19,000.

(7) CAPITAL STOCK:

The Preferred Shares Series A are redeemable at the option of the Company from October 15, 1972 through October 14, 1977 at \$53.50 and thereafter at \$51.00. At the option of the holder each Preferred Share Series A may be converted into one and one-fifth Common Shares at any time on or before October 15, 1972 or thereafter may be converted into one Common Share on or before October 15, 1977 or such earlier date as may result from notice of redemption of the shares.

At December 31, 1969 there were 720,000 Common Shares reserved for issue upon exercise of the rights of conversion attaching to the Preferred Shares Series A, being the maximum number of Common Shares that would be issued if all the Preferred Shares Series A were converted during the first conversion period.

(8) COMMITMENTS AND CONTINGENT LIABILITIES:

At December 31, 1969 the Company had long term lease agreements for office space under which the net rentals payable in 1970 will be \$327,000, including \$296,000 payable for the Calgary office building.

The Company and its subsidiaries have issued to and deposited with governmental authorities an aggregate of \$929,000 of non-interest bearing demand notes to be held as security for the performance of work obligations in respect of certain exploratory rights.

The Company has a contingent liability to purchase up to \$2,258,000 of bonds of a pipe line company in which it has a share ownership. In addition, the Company has guaranteed the payment of principal (amounting to \$2,974,000 at December 31, 1969) and interest on certain outstanding debentures of the same pipe line company.

Hudson's Bay Oil and Gas Company Limited

Incorporated under the Laws of Canada

BOARD OF DIRECTORS

A. W. TARKINGTON, *Chairman, New York, Vice-Chairman of the Board of Directors of Continental Oil Company*

J. R. MURRAY, *Vice-Chairman, Winnipeg, Managing Director of Hudson's Bay Company*

T. N. BEAUPRÉ, *Montreal, Chairman of the Board of Directors of Domtar Limited, and a Director of Hudson's Bay Company*

W. E. GLENN, *Houston, President of Western Hemisphere Petroleum Division and a Director of Continental Oil Company*

D. C. JONES, *Calgary, Executive Vice-President of the Company*

D. E. KILGOUR, *Winnipeg, President and a Director of The Great-West Life Assurance Company, and a Director of Hudson's Bay Company*

HERBERT H. LANK, *Montreal, Director of DuPont of Canada Limited*

J. G. MCLEAN, *New York, President and Chief Executive Officer and a Director of Continental Oil Company*

L. J. RICHARDS, *Calgary, President of the Company*

J. S. ROYDS, *New York, Senior Vice-President and a Director of Continental Oil Company*

OFFICERS

L. J. RICHARDS, *President*

D. C. JONES, *Executive Vice-President*

K. H. BURGIS, *Financial Vice-President*

R. J. HAMILTON, *Vice-President, Exploration*

S. G. OLSON, *Vice-President, Production*

R. F. HASKAYNE, *Controller*

F. J. MAIR, *Treasurer*

W. E. SELBY, *Secretary*

TEN YEAR FINANCIAL REVIEW ⁽¹⁾

	1969	1968
GROSS OPERATING REVENUES		
Crude Oil	\$ 36,580	36,671
Natural Gas Liquids	\$ 10,593	6,490
Natural Gas	\$ 15,742	12,445
Sulphur	\$ 4,272	4,004
Processing Non-owned Gas	\$ 2,659	1,381
Pipe Line and Product Distribution	\$ 6,649	5,893
TOTAL	\$ 76,495	66,884
EARNINGS AND DIVIDENDS		
Net Earnings (2)		
Before Income Taxes	\$ 29,390	26,810
After Income Taxes	\$ 27,030	26,790
Per Common Share (after preferred dividends)	\$ 1.40	1.38
Funds Generated from Operations		
Total (after income taxes)	\$ 44,794	42,751
Per Common Share (after income taxes and preferred dividends)	\$ 2.37	2.25
TOTAL DIVIDENDS DECLARED	\$ 10,647	10,647
Per Common Share	\$.50	.50
Per Preferred Share	\$ 2.50	2.50
CAPITALIZATION		
Long-Term Debt (including portion due within one year)	\$ 87,299	67,023
Shareholders' Equity	\$ 192,911	176,528
TOTAL CAPITAL EMPLOYED	\$ 280,210	243,551
Shareholders' Equity as % of Total Capital Employed	68.8%	72.5%
Number of Preferred Shares Outstanding	600,000	600,000
Number of Common Shares Outstanding	18,294,044	18,294,044
CAPITAL EXPENDITURES AND EXPLORATION EXPENSES		
Exploration Expenses		
Geological, Geophysical and Other Exploration Expenses ..	\$ 6,955	5,767
Lease Rentals	\$ 2,483	2,572
Acquisition of Oil and Gas Rights	\$ 14,171	5,766
Exploratory Drilling	\$ 4,031	5,303
Development Drilling and Production Facilities	\$ 10,893	10,622
Plants and Related Facilities	\$ 8,663	26,428
Pipe Line and Product Distribution Facilities	\$ 1,496	3,305
Other	\$ 425	932
TOTAL CAPITAL AND EXPLORATION EXPENDITURES	\$ 49,117	60,695
EMPLOYEES AND SHAREHOLDERS		
Number of Preferred Shareholders	2,677	2,851
Number of Common Shareholders	8,688	8,864
Number of Employees	938	849

(1) With the exception of per share figures, dollar amounts are in thousands.

(2) Exclusive of special credits of \$856,000 in 1962 and \$265,000 in 1960.

(3) Includes \$27,866,000 acquisition costs of Consolidated Mic Mac Oils Ltd. and Security Freehold Petroleums Limited.

TEN YEAR OPERATING REVIEW

	1969	1968
LIQUID HYDROCARBONS PRODUCTION - NET (Barrels per day)		
Crude Oil - Alberta	31,832	31,804
British Columbia	6,100	5,710
Saskatchewan	4,527	4,919
Manitoba	19	19
TOTAL CRUDE OIL	42,478	42,452
Natural Gas Liquids - Condensate	10,058	6,091
LPG	1,890	972
TOTAL NATURAL GAS LIQUIDS	11,948	7,063
TOTAL CRUDE OIL AND NATURAL GAS LIQUIDS	54,426	49,515
NATURAL GAS SALES - NET (Millions of cubic feet per day)		
	281.7	233.3
SULPHUR (Net long tons per day) - Production		
Sales	955	500
	760	406
PIPE LINE		
Throughput (Barrels per day)	70,135	66,578
Miles of Trunk Line	420	420
Miles of Gathering Facilities	425	423
WELL DATA		
NET DEVELOPMENT WELLS COMPLETED		
Oil	31.5	19.3
Gas	19.8	16.2
Dry	6.7	6.9
TOTAL	58.0	42.4
NET EXPLORATORY WELLS COMPLETED		
Oil	4.0	4.8
Gas	4.9	3.9
Dry	43.1	29.5
TOTAL	52.0	38.2
TOTAL GROSS WELLS COMPLETED	244	166
NET WELLS CAPABLE OF PRODUCTION		
Oil Wells	1,010.3	978.7
Gas Wells	226.5	201.1
TOTAL	1,236.8	1,179.8
OIL AND GAS RIGHTS - NET (Thousands of acres)		
Undeveloped		
Alberta	4,005	4,610
Saskatchewan	4,742	4,751
British Columbia	2,391	1,078
Northwest Territories (Including Arctic Islands)	5,197	3,571
Maritimes	5,195	5,405
Manitoba	789	789
TOTAL UNDEVELOPED	22,319	20,204
Developed	512	472
TOTAL	22,831	20,676

1967	1966	1965	1964	1963	1962	1961	1960
29,386	25,856	25,456	26,389	25,057	22,167	22,521	19,525
5,693	5,247	3,083	2,220	2,216	1,354	178	10
5,259	4,826	4,582	4,294	3,799	3,265	2,668	2,386
16	14	13	10	10	4	5	8
40,354	35,943	33,134	32,913	31,082	26,790	25,372	21,929
6,282	5,944	5,303	4,877	4,373	3,349	1,311	694
658	569	453	346	231	215	139	66
6,940	6,513	5,756	5,223	4,604	3,564	1,450	760
47,294	42,456	38,890	38,136	35,686	30,354	26,822	22,689
196.7	169.5	138.2	116.6	104.6	82.1	60.1	43.6
481	404	344	246	238	140	11	2
433	386	343	245	237	132	5	—
58,812	56,123	57,502	58,817	53,724	42,678	30,759	23,597
420	391	200	200	200	187	117	78
366	334	314	297	266	211	166	114
30.0	34.8	38.4	60.2	66.3	65.1	52.7	47.9
17.1	9.8	10.3	8.0	8.7	7.1	2.7	7.1
8.8	12.1	11.0	9.8	14.9	13.8	5.2	4.8
55.9	56.7	59.7	78.0	89.9	86.0	60.6	59.8
19.9	9.5	7.2	5.0	5.4	2.8	3.5	3.0
8.0	9.0	4.2	7.7	8.1	2.3	5.2	4.0
33.3	40.0	28.9	28.9	22.1	16.8	9.6	14.3
61.2	58.5	40.3	41.6	35.6	21.9	18.3	21.3
203	222	195	225	249	164	126	140
992.2	957.1	919.7	917.2	877.0	754.6	698.6	646.6
189.7	166.8	152.7	136.2	125.3	97.4	88.0	80.0
1,181.9	1,123.9	1,072.4	1,053.4	1,002.3	852.0	786.6	726.6
5,520	6,434	6,699	5,745	5,601	4,367	4,267	3,986
4,996	5,196	3,931	2,960	2,980	2,655	2,584	2,628
980	1,025	1,203	1,161	1,952	2,000	2,379	4,102
2,293	2,033	1,871	1,027	1,461	1,697	1,717	2,012
4,583	9,167	9,167	—	—	—	—	—
789	789	789	792	792	703	703	703
19,161	24,644	23,660	11,685	12,786	11,422	11,650	13,431
405	383	356	347	321	274	242	164
19,566	25,027	24,016	12,032	13,107	11,696	11,892	13,595

1967	1966	1965	1964	1963	1962	1961	1960
34,848	31,358	28,867	28,879	27,112	22,987	20,887	17,720
6,314	5,826	5,196	4,709	4,312	3,234	1,097	588
10,483	9,009	7,339	5,954	5,218	3,895	2,478	1,741
3,641	1,527	1,428	430	411	241	30	—
1,389	1,197	820	593	666	414	211	131
5,013	3,565	3,567	3,677	3,305	2,825	2,236	1,841
61,688	52,482	47,217	44,242	41,024	33,596	26,939	22,021
22,139	17,371	15,355	13,803	12,331	10,166	7,006	1,004
1.19	.95	.84	.75	.67	.57	.39	.06
38,277	32,813	29,444	27,372	25,760	21,106	16,440	11,089
2.07	1.79	1.61	1.50	1.41	1.19	.93	.62
9,522	7,318	7,318	6,403	5,488	5,324	3,549	—
.50	.40	.40	.35	.30	.30	.20	—
.625	—	—	—	—	—	—	—
73,843	68,753	55,560	51,210	52,858	23,589	25,278	26,500
160,385	118,300	108,247	100,210	92,810	77,479	71,781	68,324
234,228	187,053	163,807	151,420	145,668	101,068	97,059	94,824
68.5%	63.2%	66.1%	66.2%	63.7%	76.7%	74.0%	72.1%
600,000	—	—	—	—	—	—	—
18,294,044	18,294,044	18,294,044	18,294,044	18,294,044	17,744,592	17,744,592	17,744,592
5,156	3,319	2,720	2,570	2,269	2,535	1,841	2,251
2,280	2,857	2,908	2,224	2,191	2,027	2,032	2,169
1,493	3,775	7,847	3,037	28,534	4,320	2,138	3,344
8,053	5,873	4,535	4,191	4,663	3,224	2,105	2,791
13,100	8,891	7,618	10,433	12,396	8,287	7,704	9,424
6,049	4,788	5,861	5,350	2,812	1,899	6,849	1,175
5,085	8,536	847	812	2,341	3,315	2,426	242
536	354	362	358	161	245	131	307
41,752	38,393	32,698	28,975	55,367(3)	25,852	25,226	21,703
3,312	—	—	—	—	—	—	—
9,254	9,859	10,674	11,548	12,526	11,038	11,485	11,956
738	613	574	506	475	454	425	407

HEAD OFFICE

320 Seventh Avenue South West, Calgary 2, Alberta

SUBSIDIARY COMPANIES (all wholly-owned)

AURORA PIPE LINE COMPANY, incorporated
by Special Act of the Parliament of Canada

BLUE FLAME PROPANE LTD., incorporated
under the Laws of the Province of Alberta

HBOG MINING LIMITED, incorporated under
the Laws of the Province of Ontario

MIC MAC OILS (1963) LTD., incorporated under
the Laws of the Province of Alberta

RANGELAND PIPE LINE COMPANY LIMITED,
incorporated under the Laws of the Province of
Alberta

SECURITY FREEHOLD PETROLEUMS LIMITED,
incorporated under the Laws of Canada

TRANSFER AGENTS**Common Shares**

MONTREAL TRUST COMPANY,
Calgary, Montreal, Toronto, Vancouver
and Winnipeg

MORGAN GUARANTY TRUST COMPANY OF
NEW YORK, New York

Preferred Shares

MONTREAL TRUST COMPANY,
Calgary, Montreal, Toronto, Vancouver
and Winnipeg

STOCK EXCHANGE LISTING

Common and Preferred Shares
TORONTO STOCK EXCHANGE

AUDITORS

PEAT, MARWICK, MITCHELL & CO., Calgary



Hudson's Bay Oil and Gas Company Limited **1969** Annual Report